STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: REVIEW OF BILL RISK MANAGEMENT FOR NATURAL GAS CUSTOMERS	DOCKET NO. NOI-03-5

ORDER ADDRESSING UNRESOLVED ISSUES

(Issued November 29, 2004)

PROCEDURAL BACKGROUND

On October 9, 2003, the Utilities Board (Board) opened an inquiry, In re: Review of Bill Risk Management for Natural Gas Customers, Docket No. NOI-03-5, to consider what alternatives might be available to reduce the risk to small volume customers of sharply rising and volatile natural gas prices. The Board noted the utilities had taken some action to address the problem such as implementing a new service with a guaranteed bill and that small commercial customers could also transport gas under existing tariffs. In addition, all of the Iowa investor-owned natural gas utilities are hedging the price risk of natural gas and two gas utilities are hedging volumetric risk.

The Board recognized in the October 9, 2003, order that even in good economic times, large fluctuations in natural gas bills can have serious effects on small businesses, municipalities, hospitals, and other entities. The Board indicated it was interested in determining whether there are other service alternatives or changes in tariffs or Board rules that will help these customers. The Board had received inquiries from governmental entities about small volume transportation and the Board was particularly interested in determining whether the transportation of natural gas by governmental entities would help to reduce the impact of volatile gas prices on these entities' budgets.

The issue of small volume transportation by governmental entities was also being considered in Docket No. SPU-04-1, In re: Iowa Joint Utility Management Program, Inc. That docket addressed the small volume transportation pilot projects of MidAmerican Energy Company (MidAmerican) and Interstate Power and Light Company (IPL). On August 12, 2004, the Board approved a settlement in that docket that expanded the MidAmerican and IPL small volume pilot projects to include governmental entities. The expansion of the pilot projects to allow governmental entities the opportunity to transport natural gas resolved most of the issues associated with transportation by those entities in this inquiry.

This inquiry continued after the resolution of Docket No. SPU-04-1, since there were still unresolved issues concerning small volume transportation that had been raised in a workshop conducted by the Board on July 1, 2004. Participants in the workshop included the Consumer Advocate Division of the Department of Justice (Consumer Advocate), MidAmerican, Aquila, Inc., d/b/a Aquila Networks, Cornerstone Energy, Inc., Seminole Energy Services (Seminole), Ackerman

Investments Company (Ackerman), U.S. Energy, Consumers Energy, CenterPoint Energy Gas Services, Inc., and IPL.

In the workshop, participants addressed questions raised by the Board and other matters concerning possible alternatives for small commercial customers to limit the effect of price spikes and cold weather on their natural gas costs. From the discussions, it became apparent that there were two broad categories of proposals. First, there were fixed bill alternatives, such as the "Worry Proof Bill" program offered by IPL to residential as well as small volume business customers. Second, there were proposals for modifying Board rules and utility tariffs to allow small volume customers the same opportunity to transport natural gas as large volume customers.

The participants in the workshop agreed that fixed bill and similar alternatives aimed primarily at residential customers should be developed by each utility and that the Board should not mandate any particular type of service. The Board agrees with the participants and encourages utilities to develop and offer suitable fixed bill alternatives to their residential and small business customers.

The marketer-participants in the workshop indicated that changes needed to be made in Board rules and utility practices to allow small volume customers the opportunity to transport natural gas in a manner similar to large volume customers. The utilities expressed concern that a small volume transportation service would leave the utility with stranded costs, and that small volume customers should be made aware of the risks involved in transportation.

Seminole and Cornerstone filed additional comments after the workshop. IPL and MidAmerican filed reply comments. A summary of the additional comments and reply comments is set out below.

COMMENTS ON UNRESOLVED ISSUES

Seminole

Seminole states that it provides a full range of natural gas marketing services in ten states. Seminole states that it provides service to over 3,400 customers, the majority of which would be classified as small volume customers under Board rules. Seminole supports expanded and more easily accessible transport services for small volume customers.

Seminole states that its small volume customers are looking for natural gas service that allows the customer to manage energy costs rather than accept a strictly-regulated rate structure with no options except a fixed price for a one-year term, as offered by the utilities. Seminole states that this is true even for a farm customer who would only transport natural gas on a seasonal basis.

Seminole reviewed IPL and MidAmerican tariffs and believes the tariffs are designed to discourage small volume customers from transporting gas. Seminole believes that daily metering requirements and daily balancing requirements are not necessary for small volume customers. The small customer load can be predicted with a high degree of accuracy from historical usage when usage can be related to specific degree-day deficiency records.

Seminole urges the Board to amend its rules to include the following provisions.

1. Service should be available to all non-residential small volume customers if such customer can justify the use of transport gas on an economic basis.

2. There should be no incremental monthly customer charges for transportation.

3. Aggregation should be allowed by interstate pipeline with volumetric cost-based charges for service.

4. No telemetry should be required if local predictability could be accomplished with a determined degree of accuracy.

5. Daily balancing service should be provided by each utility at a cost-based charge for the service.

6. Nominations should be required at the pool level, rather than by customer.

7. Monthly cash outs should be required at the pool level, rather than by customer, and billed to the aggregator.

8. Reasonable procedures should be used to manage monthly cash outs.

9. The utility should be required to make a good faith effort to minimize paper work requirements and simplify transportation rules.

Cornerstone

Cornerstone is certified as a competitive natural gas provider (CNGP) authorized to offer natural gas services in Iowa to large and small volume customers. Cornerstone states that it offers the following services: 1) commodity and capacity procurement; 2) management of risk, nominations, and imbalances; 3) pipeline and local distribution rate negotiation; 4) asset optimization; and 5) energy consultation.

Cornerstone submitted several proposed revisions to the Board's natural gas rules, which it believes would provide a greater opportunity for small volume customers to transport gas. The proposed amendments to the Board's rules and explanations for the proposed amendments are set out below. The new language proposed by Cornerstone is underlined and the current language Cornerstone proposes to be deleted has a strike through.

1. Amend 19.13.4"e" as follows:

e. Small volume transportation service. ~~Rescinded IAB 4/28/04, effective 6/2/04.~~

<u>It is the intent of the board that transportation service should be available to the non-residential small volume end-user in a manner that minimizes confusion to the end-user and provides a streamlined efficient service for all involved. Notwithstanding any conflicting provisions in this subsection [sic], each utility shall file tariffs which reflect the following for a small volume customer.</u>

(1) There should not be an incremental monthly customer charge for transportation.

(2) The utility shall not require telemetry or daily metering. A daily balancing service may be provided with a volumetric cost-based charge for this service.

(3) Aggregation should be allowed by interstate pipeline zone with cost-based charge for this service.

(4) Provisions should allow for nominations to be made at a pool level by an alternative supplier rather than by an individual end-user. Such alternative supplier must make a good faith effort to deliver expected consumption, and may be required to deliver the maximum daily quantity during critical days as determined by the relevant interstate pipeline.

(5) Provisions should be made for monthly cash outs to be at a pool level and billed to the end-user's agent. Such cash outs should be based on nominations and monthly consumption for the total pool based on each end-user's actual recorded consumption at cycle read date.

(6) The pertinent costs related to capacity held by a utility for an end-user may be assigned to the end-user or alternate supplier at the utility's current average cost.

(7) A small volume end-user must remain on transportation service for a minimum of six months before seeking a return to sales service of the utility.

<u>At the time of a return to sales service, the utility may impose a cost-based reconnection charge on the end-user.</u>

<u>(8) Billing arrangements may be negotiated between the utility, end-user, and the end-user's agent.</u>

<u>(9) Reasonable procedures should be developed to resolve monthly cash outs and simplify the small volume transportation service.</u>

Cornerstone proposes the opening statement be added to paragraph "e" to make it clear that the provisions apply to non-residential customers only and the service should be efficient for all involved. Cornerstone indicates that the proposed amendments to paragraph "e" are to apply to small volume transportation instead of the other transportation rules that apply to large volume transportation. Cornerstone provides the following explanations for the subparagraphs in paragraph "e."

Proposed subparagraph "e"(1) provides that the utility is entitled to recover all of its incremental costs and should develop cost-based rates for daily balancing services, aggregation services, and monthly cash outs. There should not be an arbitrary incremental monthly charge since it would be a significant deterrent to small volume transportation.

Proposed subparagraph "e"(2) prohibits the utility from requiring telemetry equipment for a small volume user. Cornerstone suggests that removal of the telemetry and daily balancing requirement would remove the biggest barriers to small volume transportation.

Proposed subparagraph "e"(3) allows a pool operator (CNGP) to aggregate all of its customer's volumes. This is how utilities manage gas supply for their own sales customers. The proposed amendments would allow the utility to recover applicable costs.

Proposed subparagraph "e"(4) allows the pool operator to make its own nominations at the pooled level and gives the pool operator the flexibility to manage its own gas supply to meet its customers' needs. The utility is protected by the requirement that a pool operator must deliver the maximum daily quantity on critical days.

Proposed subparagraph "e"(5) allows the pool operator to offset the nominations against the total consumption of the pool as determined by usage recorded at the time of the monthly meter read. This eliminates the necessity of moving customers to a special month-end read date or calculating consumption based on prorations or allocations. Cornerstone suggests that this procedure is similar to the cash out mechanisms between the utility and the interstate pipeline.

Proposed subparagraph "e"(6) provides that capacity costs follow the end-user. This procedure leaves the utility with ownership of the capacity, but allows the utility to recover its costs and avoid the imposition of stranded costs on other system customers.

Proposed subparagraph "e"(7) prevents an end-user from switching back and forth between sales and transportation service too frequently and thus increasing costs.

Proposed subparagraph "e"(8) attempts to simplify the billing process according to the needs of those involved.

Proposed subparagraph "e"(9) provides that procedures should be reasonable and simplified so they are not an impediment to small volume transportation.

2. Amend 19.13(5) as follows:

Cornerstone did not propose changes to subrule 19.13(5).

3. Amend subrule 19.13(6) as follows:

(6) Written notice of risks. The utility must notify its <u>small and</u> large volume users as defined in 19.14(1) contracting for transportation service in writing that unless the customer buys system supply reserve service from the utility, the utility is not obligated to supply gas to the customer. The notice must also advise the <u>small and</u> large volume user of the nature of any identifiable penalties, any administrative or reconnection costs associated with purchasing available firm or interruptible gas, and how any available gas would be priced by the utility. The notice may be provided through a contract provision or separate written instrument. The large volume user must acknowledge in writing that it has been made aware of the risks and accepts the risks.

Cornerstone states that it is proposing to amend subrule 19.13(6) to clarify that notice of the risks associated with contracting for transportation service must go to small volume users as well as large volume users. Cornerstone points out that while a specific cross-reference to the rules language in the notice provision itself is probably not necessary, a small volume transportation customer seeking to return to the utility's system sales gas should be responsible for any returning charges impacted by credit for the capacity costs that followed the customer on the original switch to transportation.

4. Amend subrule 19.14(1) as follows:

(1) Definitions. The following words and terms, when used in these rules, shall have the following meanings as indicated below:

"Competitive natural gas provider" or "CNGP" means a person who takes title to natural gas and sells it for consumption by a retail end user in the state of Iowa, and it also means an aggregator as defined in Iowa Code section 476.86. CNGP includes an affiliate of an Iowa public utility. CNGP excludes the following:

1. A public utility which is subject to rate regulation under Iowa Code chapter 476.

2. A municipally owned utility which provides natural gas service within its incorporated area or within the municipal natural gas competitive service

area, as defined in Iowa Code section 437A.3(21)"a"(1), in which the municipally owned utility is located.

"Competitive natural gas services" means natural gas sold at retail in this state excluding the sale of natural gas by a rate-regulated public utility or a municipally owned utility as provided in the definition of CNGP in 19.14(1).

"Large volume user" means any end user whose usage exceeds ~~25,000 therms in any month or 100,000 therms in any consecutive 12-month period~~ 200 or more dth per day.

"Small volume user" means any user whose usage ~~does not exceed 25,000 therms in any month and dos not exceed 100,000 therms in any consecutive 12 month period~~ is less than 200 dth per day.

Cornerstone proposes the definitions of large and small volume users in subrule 19.14(1) be amended to reflect levels of use more associated with the common current practice of utilities and CNGPs. Cornerstone suggests these definitions also be added to the definitions in subrule 19.1(3).

IPL

IPL points out that it has entered into a settlement in Docket No. SPU-04-1, In re: Iowa Joint Utility Management Program, Inc., that expands the availability of natural gas transportation to governmental entities as a pilot project and that the pilot project should be completed and the data analyzed before any significant change in

Board rules is proposed. IPL suggests that the Board cannot determine the effect of any expansion of small volume transportation until the pilot is complete.

IPL suggests that there are questions that need to be addressed before any change in Board rules occurs. Those questions are:

1. Who has the obligation to serve, the marketer or the utility?

2. Where does sufficient margin come from to pay a marketer and provide savings for customers?

3. Which is able to get more favorable rates for customers, the utilities or marketers?

4. What quality of service does the customer receive? Are the marketers buying supply that is less reliable than system supply? Is this the source of the margin? If the supply is less reliable, is the customer aware of the risks involved?

5. If a marketer defaults, is the utility obligated to serve or merely to make its "best effort" to serve?

6. More concretely, will customers do without service if a marketer defaults during a cold winter when supplies are not readily or economically available?

7. Will the Board establish financial viability requirements for marketers wishing to serve small volume customers?

8. What role will the Board play in ensuring customers understand the service they are buying and in controlling the content of a marketer's promotional materials?

IPL states that an additional matter that complicates any amendments to the Board's rules is the current Federal Energy Regulatory Commission (FERC) rate case filed by Northern Natural Gas Company (Northern), the interstate pipeline that provides natural gas service to IPL and MidAmerican. In that rate case, Northern has proposed to eliminate daily balancing tolerances and imposes a "high-low commodity" cash out pricing mechanism that would increase IPL and MidAmerican's cost of balancing their systems. The full effect of this change will not be known until after this winter heating season, when IPL will also be in a better position to understand the effect of increased small volume transportation resulting from the expanded pilot project in Docket No. SPU-04-1.

IPL opposes the elimination of monthly transportation administrative charges. IPL contends that increased transportation by small volume customers will increase up-front and administrative costs that will need to be recovered.

IPL opposes elimination of the telemetry requirement. IPL contends that as more small volume customers transport, telemetering becomes more important because of the changes in Northern's balancing and cash put restrictions.

IPL suggests that a small volume customer should be required to transport for 12 months, rather than the six months proposed by Cornerstone. There could be substantial costs to the utility if after six months a number of small volume customers decided to return to system gas.

IPL also suggests that small volume customers should be required to have weather-sensitive and predictable demands. Predictable demands are essential to being able to create a reasonable daily demand forecast for small volume participants.

MidAmerican

MidAmerican states that Cornerstone did not provide any specific solutions to the problem of management of gas price risk volatility. MidAmerican opposes the amendments to the Board's rules proposed by Cornerstone. MidAmerican believes that the Board expressed opposition to the expansion of small volume gas transportation when it ended the investigation into the service in Docket No. NOI-98-3, In re: Small Volume Gas Transportation. MidAmerican believes the Board does not support small volume meterless transportation as a viable gas price risk management tool.

MidAmerican suggests that if it is wrong about the Board's position with regard to expansion of small volume gas transportation, the Board should only amend its rules after further investigation or in a rule making. MidAmerican contends that small volume gas transportation has not been fully tested and analyzed to determine if it provides a benefit to small volume customers. This analysis should be performed at the end of the expanded pilot program approved in Docket No. SPU-04-1.

MidAmerican suggests that the Board consider the following impacts of an expanded service.

1. If it is more expensive for a utility to administer transportation accounts, a premium should be charged in order to keep other customers whole.

2. Will meterless transportation work for a large diverse group of customers? The expanded pilot program only involves heating gas and not all of the various types of gas use by small volume commercial customers.

3. Will marketers expect to purchase interruptible transportation and supply to reduce fixed costs while taking advantage of utility supply on the coldest days? If so, there would be additional costs that would be absorbed by system customers.

4. Does assigning transporters "current average cost" for capacity held by a utility for an end user provide full compensation?

5. Is it appropriate to allow small volume transporters to remain on transportation for only six months instead of the more typical 12 months under current utility tariffs?

6. The proposed amendments do not take into account the changes to Northern's balancing parameters.

MidAmerican points out that it has been able to obtain significant discounts for its natural gas supply from interstate pipelines because of its multiple interconnections. If more customers leave the system to transport, it is less likely that MidAmerican can continue to negotiate similar discounted rates.

BOARD DISCUSSION

The MidAmerican and IPL tariffs implementing the settlement agreement to expand the existing small volume transportation pilot program to state agencies have been approved. These tariffs allow CNGPs the opportunity to provide transportation service to governmental entities as part of an expanded pilot project for small volume transportation. Most of the changes to small transportation tariffs proposed by Cornerstone and Seminole are provided for in the pilot programs. Under the pilot programs, small volume transportation will not be required to install telemetry equipment and administrative charges are set at a reasonable level.

Since the pilot program has just been implemented, the Board considers it premature to propose any additional changes to its permanent small transportation rules or tariffs until the Board has had a chance to review information concerning the pilot program. MidAmerican and IPL will file information concerning the expanded pilot program at the end of the first year of the program. A review of that information should allow the Board a better understanding of what changes, if any, need to be made to Board rules and what benefits can be achieved by small volume customers from the transportation of natural gas. Also, the Northern Natural Gas Company rate cases at FERC should be concluded at that time and the utilities should know the effect of those rate changes. The Board will hold this docket open for consideration of the unresolved issues raised by Cornerstone and Seminole after review of the information to be filed by MidAmerican and IPL.

ORDERING CLAUSE

IT IS THEREFORE ORDERED:

Docket No. NOI-03-5 shall be held open to consider the unresolved issues related to transportation by small volume non-residential customers after the first annual filing required in Docket No. SPU-04-1.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 29th day of November, 2004.